

Message Text

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PAGE 01 PARAMA 00481 262138Z
ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-01
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FM AMEMBASSY PARAMARIBO
TO SECSTATE WASHDC 3398
INFO AMEMBASSY CARACAS
AMEMBASSY GEORGETOWN
AMEMBASSY PORT OF SPAIN
AMCONSUL CURACAO
AMEMBASSY BRASILIA
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA

C O N F I D E N T I A L PARAMARIBO 0481

E.O. 11652: GDS
TAGS: ENRG, NS,NE
SUBJ: GOS SIGNS OIL EXPLOITATION CONTRACT WITH VENEZUELAN FIRM

SUMMARY: A FIFTEEN-YEAR CONTACT FOR OIL EXPLORATION AND EXPLOIT-
ATION SIGNED BETWEEN GOS AND PETROLERA LAS MERCEDES OPENS
POSSIBILITY OF A NEW RELATIONSHIP BETWEEN GOS AND MAJOR OIL
COMPANIES OPERATING IN SURINAM.

1. ON MAY 22, THE GOVERNMENT OF SURINAM AND THE VENEZUELAN
FIRM PETROLERA LAS MERCEDES SIGNED A FIFTEEN YEAR CONTRADT
FOR OIL EXPLORATION AND EXPLOITATION IN SURINAM'S SARAMACCA
DISTRICT. TWO YEARS IN THE MAKING, THE AGREEMENT DOES NOT PRO-
VIDE FOR TRADITIONAL CONCESSION TO THE VENEZUELAN FIRM
(SURINAM RETAINS OWNERSHIP OF THE OIL) AND IF ENTERPRISE
PROVES ECONOMICALLY FEASIBLE, MAY PROVIDE BASE FOR INCREASED
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GOS INFLUENCE OVER ACTIVITIES OF MAJOR OIL COMPANIES OPERAT-
ING IN SURINAM.

2. DETAILS OF THE CONTRACT WERE ANNOUNCED IN A MAY 24 PRESS
CONFERENCE HELD BY MINISTER OF DEVELOPMENT CAMBRIDGE AND
MINISTER OF ECONOMIC AFFAIRS BRUMA. LAS MERCEDES WILL BE PER-
MITTED TO EXPLORE FOR OIL IN AN AREA SURROUNDING CALCUTTA

(ABOUT 50 KM WEST OF PARAMARIBO) TOTALING 120,000 HECTARES. EXPLORATION ACTIVITIES MUST BEGIN WITHIN NINETY DAYS FROM THE SIGNING OF THE CONTRACT AND FOUR TEST BORINGS MUST BE COMPLETED WITHIN 150 DAYS. AN EVALUATION OF EXPLOITATION POSSIBILITIES MUST BE READY WITHIN SEVEN MONTHS, AT WHICH TIME GOS WILL HAVE MUCH BETTER IDEA OF THE AREA'S RESERVES AND LIKELY PRODUCTIVITY. THE INITIAL BORINGS ARE EXPECTED TO REQUIRE AN INVESTMENT OF AT LEAST \$500,000.

3. CONTRACT FURTHER PROVIDES THAT WITHIN 27 MONTHS, 60 ADDITIONAL BORINGS WILL BE MADE AT AN ESTIMATED COST OF \$15 MILLION. COMMERCIAL EXPLOITATION IS TO OCCUR WITHIN THREE YEARS, WITH A POSSIBILITY THAT A REFINERY WILL BE BUILT IF RESULTS ARE FAVORABLE. ALL RISKS ARE REPORTEDLY ASSUMED BY THE VENEZUELAN FIRM WHICH WILL PUMP OUT AND MARKET THE OIL AS AN AGENT FOR THE GOS OPERATING THROUGH A NEW LIMITED LIABILITY COMPANY TO BE SET UP IN SURINAM. PROCEEDS FROM SALES OF THE CRUDE WILL BE DIVIDED AS FOLLOWS: AFTER DEDUCTION OF PRODUCTION COSTS (ESTIMATED AT 40 PERCENT) A 10 PERCENT ROYALTY WILL BE PAID TO GOS AND THE REMAINING PROFIT (ESTIMATED AT 50 PERCENT) WILL BE DIVIDED EQUALLY BETWEEN GOS AND LAS MERCEDES, WITH THE LATTER'S SHARE SUBJECT TO NORMAL SURINAM INCOME TAXES.

4. COMMENT: GOS LOOKS UPON PROJECT AS A MEANS OF REDUCING ITS CURRENT ESTIMATED \$73 MILLION ANNUAL OIL IMPORT BILL, BUT MORE IMPORTANTLY HOPES THAT THE REFINED PRODUCTS WHICH IT WILL RECEIVE IN EXCHANGE FOR CRUDE SHIPPED ABROAD WILL PROVIDE NEW LEVERAGE OVER THE MARKETING AND PRICING ACTIVITIES OF THE MAJOR OIL COMPANIES OPERATING IN SURINAM (SHELL, WHICH HAS 50 PER-

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CENT OF THE MARKET, EXXON, AND TEXACO). RECENT UNILATERAL ACTIONS BY OIL COMPANIES TO RAISE THEIR PUMP PRICES FOR GASOLINE BY NEARLY FOUR PERCENT REPORTEDLY INFURIATED SOME GOS OFFICIALS, AND THERE IS CLEAR DESIRE AS EXPRESSED PRIVATELY BY DEVELOPMENT MINISTER CAMBRIDGE THAT GOS HAVE A SAY IN THE PRICING OF SUCH A CRUCIAL COMMODITY.

5. AT SAME TIME, THERE IS CONSIDERABLE SKEPTICISM THAT RESULTS WILL LIVE UP TO EXPECTATIONS. DOUBTS ABOUT THE EXTENT OF RESERVES AND PROFITABILITY OF OIL PRODUCTION ARE APPARENTLY SHARED BY SHELL, FOR EXAMPLE, WHICH PREVIOUSLY GAVE UP RIGHTS TO EXPLORE IN THE SAME AREA. UNLESS QUANTITY EXCEEDS THE APPROXIMATELY 1200 BARRELS A DAY WHICH CAMBRIDGE RECENTLY ESTIMATED AS LIKELY PRODUCTION, IT IS MORE PROBABLY THAT ANY OIL PRODUCED WILL BE SHIPPED TO TRINIDAD, CUUACAO, OR ARUBA FOR REFINING. NEVERTHELESS, WHATEVER QUANTITIES OF REFINED PRODUCTS WHICH SURINAM IS ABLE TO OBTAIN IN RETURN WILL ENABLE THE GOS TO INCREASE ITS ROLE IN THIS IMPORTANT SECTOR OF THE ECONOMY.

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